

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name CLINTON AREA TRANSIT SYSTEM	County CLINTON
Audit Date 9/30/04	Opinion Date 11/30/04	Date Accountant Report Submitted to State: 3/11/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | |
|------------------------------|--|---|
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, P.C.			
Street Address 1000 COOLIDGE RD	City EAST LANSING	State MI	ZIP 48823
Accountant Signature <i>Layton Richardson P.C.</i>		Date 3/11/05	

CLINTON AREA TRANSIT SYSTEM

CLINTON COUNTY

ST. JOHNS, MICHIGAN

FINANCIAL STATEMENTS

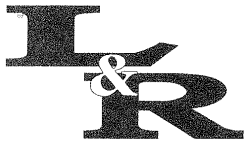
SEPTEMBER 30, 2004



Layton & Richardson, P.C.
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Clinton Area Transit System
Charlotte, Michigan

We have audited the accompanying financial statements of the business-type activities of the Clinton Area Transit System as of and for the year ended September 30, 2004, which collectively comprise the Organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Clinton Area Transit System. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Clinton Area Transit System as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, the Clinton Area Transit System adopted the provision of Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments Omnibus*.

The management's discussion and analysis and the required supplementary information on pages 3 through 8 are not a required part of the basic financial statement but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Clinton Area Transit System's basic financial statements. The accompanying schedule of expenditures is for purpose of additional analysis as required by audits of states, local governments and non-profit organizations, and is not part of the general purpose financial statements of the Clinton Area Transit System. The supplemental financial information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2004 on our consideration of the Clinton Area Transit System's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report considering the results of our audit.

A handwritten signature in black ink that reads "Layton & Richardson, P.C." in a cursive, flowing script.

Certified Public Accountants

East Lansing, Michigan
November 30, 2004

Clinton Area Transit System Management's Discussion and Analysis

The goal of this discussion and analysis is to provide highlights to the Clinton Area Transit System's (CATS) financial activities for the Fiscal Year ended September 30, 2004. Readers are encouraged to read this section in conjunction with the accompanying basic financial statements.

Financial Highlights

- **Assets:** CATS assets exceeded its liabilities by \$81,260. All of this amount may be used to meet ongoing transit obligations to citizens and creditors. The total assets decreased by \$88,171. The majority of the decrease was due to vehicle depreciation. CATS did purchase one new bus, Bus 2, during the Fiscal Year at a cost of \$51,255. Bus 2 was funded 80% (\$41,004) with Section 5309 Federal funds and 20% (\$10,251) with State funds. CATS had \$1,345 in unreserved cash assets on September 30th. This low level of assets reflects CATS' operating without a millage. This is \$2,218 less than September 30, 2003.
- **Ridership** decreased from FY 2003's ridership of 43,670 to 42,571, down 2.5%. The total operating miles decreased from the FY 2003's total of 334,743, to FY 2004's 297,076, or 8.9%. CATS is attempting to become more efficient by decreasing its operating miles in the face of declining revenues.
- CATS has funding from FY 2004 (Section 5309) to purchase one bus (\$57,205) and scheduling software (\$49,112). MDOT has not yet signed the contracts authorizing the expenditure of these funds which total \$106,317, which are 80% Federal and 20% State.
- CATS has a Section 5309 Federal capital appropriation (FY 2005) of \$1,250,000. The actual available Federal funding, after FTA administrative fees, is \$1,214,724. The State match will be \$303,681. The total funds, which are not expected to be available until FY 2006, are \$1,518,405. This funding will be used to replace vehicles, buy tools and other capital needs.

Overview of the Financial Statements

The annual report includes this management discussion and analysis report, the independent auditor's report and the basic financial statement of CATS, which include notes that explain in more detail some of the information in the financial statements. This is the first time that this report is presented in this format as required by GASB Statement No. 34.

Clinton Area Transit System Management's Discussion and Analysis

As an Act 196 Transit Authority, CATS provides demand-response service for residents of Clinton County and for people who work in Clinton County. Transportation purposes are medical, employment, recreation and education.

Required Financial Statements

The financial statements report information on CATS uses accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of CATS' assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations of CATS creditors (liabilities). It also provides the basis for evaluating the capital structure of CATS and assessing the liquidity and financial flexibility of CATS.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Fund Net Assets. This statement measures the success of CATS' operations over the past year and can be used to determine whether CATS has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did the cash come from, what was the cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of Clinton Area Transit System

The Statement of Net Assets and the Statement of Activities provides the information to determine how CATS did financially during FY 2004. The net assets, or the difference between assets and liabilities, and the changes in them can indicate whether financial health is improving or deteriorating over time. However, other non-financial factors such as changes in economic conditions, service area and new or changed government legislation also need to be considered in determining CATS' financial health.

Net Assets

CATS' Condensed Statement of Net Assets and Statement of Revenue, Expenses, and Changes in Fund Net Assets are presented in the following Tables. Comparative financial data is included for FY 2003 and FY 2004.

**Clinton Area Transit System
Management's Discussion and Analysis**

**Table 1
Condensed Statement of Net Assets
FY 2003 – FY 2004**

	FY 2003	FY 2004
Current Assets	\$ 17,248	\$ 22,351
Fixed Assets	<u>203,008</u>	<u>139,431</u>
Total Assets	<u>\$220,255</u>	<u>\$161,782</u>
Current Liabilities	\$ 14,032	\$ 16,923
Note Payable to Bank	0	40,500
Other Current Liabilities	<u>38,768</u>	<u>23,099</u>
Total Current Liabilities	\$ 82,800	\$ 80,522
Invested in Capital Assets		
Net of Debt	203,255	0
-Restricted	0	0
-Unrestricted	<u>203,255</u>	<u>81,260</u>
Total Net Assets	<u>\$220,255</u>	<u>\$161,782</u>

**Table 2
Condensed Statement of Revenue, Expenses,
And Changes in Fund Net Assets
FY 2003 – FY 2004**

	FY 2003	FY 2004
Operating Revenue	\$160,711	\$160,442
Meals-On-Wheels Revenue	218	714
Non-operating Revenue	<u>278,231</u>	<u>305,282</u>
Total Revenue	\$439,160	\$466,438
Depreciation Expense	\$ 82,837	\$ 114,831
Other Operating Expenses	<u>479,745</u>	<u>446,611</u>
Total Expenses	\$562,582	\$ 561,442
Change in Net Assets	-\$90,074	-\$95,004
Beginning Net Assets	<u>\$317,329</u>	<u>\$176,264</u>
Ending Net Assets	<u>\$220,255</u>	<u>\$ 81,260</u>

Clinton Area Transit System Management's Discussion and Analysis

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Fund Net Assets shows that the operating loss before Intergovernmental (non-operating) revenues was a factor in the Change in Net Assets. In addition, the Depreciation expense of \$114,831 is a non-cash expense, which represents the reduction in the value of vehicles and office equipment. Due to the nature of CATS' capital, this cost is not considered in the day-to-day fiscal management process because of the capital grants available through State and Federal funding.

CATS' operating revenue decreased approximately .2%, or \$269. Non-operating revenue decreased by approximately 9.05%, or \$26,181.

Operating expenses declined by 7%, or \$33,133.

Capital Assets

The acquisition of new vehicles is generally funded by (80%) Federal sources and (20%) State match from the Michigan Department of Transportation. This funding source also allows CATS to use all of its operating revenues on daily service and not tie up those incomes with debt payments for equipment. This allows for CATS to maintain its fleet at an average life of 5 (five) years.

Eleven of CATS' fourteen vehicles are eligible for replacement under Michigan Department of Transportation rules. The FY 2005 Section 5309 vehicle grant will allow CATS to replace all eligible vehicles. This funding is not expected to be actually available until FY 2006.

During the Fiscal Year 2004, a new bus was purchased (Bus 2).

**Table 3
Capital Assets
FY 2003 – FY 2004**

	FY 2003	FY 2004
Buses	\$357,233	\$408,488
Van & Minivans	205,088	205,088
Office Furniture & Equipment	<u>17,257</u>	<u>17,257</u>
Subtotal	\$579,578	\$630,833
Less: Accumulated Depreciation	(376,571)	(491,402)
Net Property & Equipment	<u>\$203,007</u>	<u>\$139,431</u>

Clinton Area Transit System Management's Discussion and Analysis

Debt Administration

CATS has no long term debt.

As of September 30, 2004, the significant debt issue for CATS was a Note Payable to Firstbank of St. Johns of \$40,500. As of the date of this writing, this note has been paid down to \$20,000. This reduction in debt was possible as a result of CATS receiving a \$40,000 grant from Clinton County. \$30,000 of this was used to pay down the Bank Note from \$50,000 to \$20,000.

Economic Factors

Many of the funds that subsidize public transportation operations are appropriated by both State and Federal governments. While the Federal funds have remained constant at 10.95% of expenditures, the State funds have declined during the past two years in total dollars and as a percent of expenditures as detailed in the table below. The reduction in State funding has had a significant negative impact on CATS' financial position.

Fiscal Year	Budget Total	Subsidy Amount	Subsidy Percentage	Net Change in Dollars	Net Change in Percentage
Fy 02	\$ 435,000	\$199,457	45.85%		
Fy 03	\$ 467,500	\$204,765	43.80%	\$ 5,308	-2.05%
Fy 04	\$ 421,500	\$178,027	42.24%	\$ (26,738)	-1.56%
Fy 05	\$ 402,460	\$154,696	38.44%	\$ (23,331)	-3.80%

CATS had a millage question on the general election ballot in November, 2004. This question was defeated by 508 votes, 17,005 for to 17,513 against.

CATS as of this writing has requested the Clinton County Commissioners to place another millage issue on the ballot for the election scheduled for August, 2005.

In the current economic environment, transit authorities either need a local millage to support their operations or on-going financial support from local governments. Consequently, CATS is seeking a dedicated millage to support financial operations.

**Clinton Area Transit System
Management's Discussion and Analysis**

Contact Information

This financial report is designed to provide our customers and creditors with a general overview of CATS' finances and demonstrate CATS' accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact the Transportation Manager for Clinton Area Transit System at 304 N. Brush Street, St. Johns, Michigan, 48879. The telephone number is (989) 224-8127.

CLINTON AREA TRANSIT SYSTEM

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2004

ASSETS

CURRENT ASSETS

Cash	\$	1,345
Accounts receivable		9,454
Due from other governmental units		8,329
Prepaid expenses		<u>3,223</u>

TOTAL CURRENT ASSETS		<u>22,351</u>
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CAPITAL ASSETS

Vehicles		613,576
Equipment		<u>17,257</u>

TOTAL CAPITAL ASSETS		630,833
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Less: accumulated depreciation		<u>(491,402)</u>
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Net Capital Assets		<u>139,431</u>
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TOTAL ASSETS	\$	<u><u>161,782</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$	17,565
Line of credit		40,500
Accrued payroll		9,827
Due to other governmental units		<u>7,241</u>

TOTAL CURRENT LIABILITIES		<u>75,133</u>
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LONG-TERM LIABILITIES

Accrued vacation and sick pay		<u>5,389</u>
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TOTAL LIABILITIES		<u>80,522</u>
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NET ASSETS

RETAINED EARNINGS

Unreserved		<u>81,260</u>
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TOTAL LIABILITIES AND NET ASSETS	\$	<u><u>161,782</u></u>
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See accompanying notes to financial statements.

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	PROGRAM REVENUES				BUSINESS TYPE ACTIVITIES
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRI- BUTIONS	CAPITAL GRANTS AND CONTRI- BUTIONS	
FUNCTIONS/PROGRAMS					
Primary Government					
Business-Type Activities	\$ <u>560,747</u>	\$ <u>160,442</u>	\$ <u>254,741</u>	\$ <u>51,255</u>	\$ <u>(94,309)</u>
General Revenues					
Unrestricted investment earnings					76
Interest on line of credit					<u>(771)</u>
Total General Revenues and Transfers					<u>(695)</u>
Change in Net Assets					<u>(95,004)</u>
NET ASSETS, OCTOBER 1					<u>176,264</u>
NET ASSETS, SEPTEMBER 30					\$ <u><u>81,260</u></u>

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

OPERATING REVENUES	\$ 160,442
OPERATING EXPENSES	<u>561,442</u>
LOSS FROM OPERATIONS	<u>(401,000)</u>
NONOPERATING REVENUES	
Federal sources	64,469
State sources	172,906
Local sources	17,290
Interest income	<u>76</u>
TOTAL NONOPERATING REVENUES	<u>254,741</u>
NET LOSS	(146,259)
RETAINED EARNINGS, OCTOBER 1	176,264
CAPITAL CONTRIBUTION	<u>51,255</u>
RETAINED EARNINGS, SEPTEMBER 30	<u><u>\$ 81,260</u></u>

See accompanying notes to financial statements.

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 160,127
Payment to suppliers	(188,941)
Payment to employees	(268,015)
NET CASH USED IN OPERATING ACTIVITIES	<u>(296,829)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal grants	64,932
State grants	171,812
Local contributions	17,290
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>254,034</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from line of credit	57,500
Payment of line of credit	(17,000)
Purchase of capital assets	(51,255)
Proceeds from capital contributions	51,255

**NET CASH FLOWS PROVIDED BY CAPITAL AND RELATED
FINANCING ACTIVITIES**

40,500

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	76
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NET DECREASE IN CASH AND CASH EQUIVALENTS

(2,219)

CASH , OCTOBER 1

3,564

CASH , SEPTEMBER 30

\$ 1,345

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY(USED IN) OPERATIONS**

Loss from operations	\$ (401,000)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities	
Depreciation	114,831
Change in assets and liabilities	
Increase in accounts receivable	(315)
Decrease in prepaid expense	2,181
Increase in accounts payable	3,143
Decrease in accrued payroll	(2,925)
Decrease in accrued vacation and sick pay	(7,142)
Decrease in other accrued liabilities	(5,602)
	<u>(296,829)</u>

\$ (296,829)

See accompanying notes to financial statements.

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Clinton Area Transit System was established under the applicable laws of the State of Michigan Public Act 196, as amended, to operate a transportation system within the County of Clinton on October 18, 2001. Public Act 196 known as the "Public Transportation Authority Act" authorizes the formation of public transportation authorities with certain powers and duties as separate and distinct political subdivisions within the State of Michigan.

Prior to the formation of the Clinton Area Transit System, public transportation services were provided to the residents of Clinton County by a nonprofit organization know as Community Resource Volunteers. To facilitate the transition of providing transportation to the residents of Clinton County, vehicles and other related equipment purchased by Community Resource Volunteers with federal and state assistance were transferred to the Transit during the fiscal year ended September 30, 2002.

The Clinton Area Transit System is eligible to receive federal and state financial assistance in the form of operating and capital grant funding to support its operation, expand marketing, and specialized services, and replace buses and other equipment. The Clinton Area Transit System provides demand response services within Clinton County. The Transit also provides special services on a contractual basis to nonprofit agencies within the County.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Transit has elected not to follow subsequent private-sector guidance.

A. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Clinton Area Transit System. The Transit System has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14, and has determined that no entities should be consolidated into its general purpose financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements.

B. Basis of Presentation

The accounts of the Clinton Area Transit System are organized on the basis of a fund which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The Transit resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2004

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Enterprise Fund

This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

D. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statements of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary organization of the Clinton Area Transit System.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services and privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. All taxes are reported as general revenue.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Measurement Focus, Basis of Accounting, and Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the individual fund statements and schedules, the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are reported when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

F. Cash

The Clinton Area Transit System cash accounts consist of checking and savings accounts. The balances in the cash accounts are available to meet current operating requirements.

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2004

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
Continued

G. Receivables

Receivables have been recognized for all significant amounts due the Transit. No allowances have been made for uncollectible amounts because, if they remain unpaid, most delinquent receivables can be added to the tax roll and become a lien against the property.

H. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. The proprietary fund is accounted for on a cost of services or “capital maintenance” measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with the activity are included on the balance sheet.

Capital assets are recorded at cost, or if donated, at fair market value at the date of donation. Expenses that materially extend the useful life of existing assets are capitalized. Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

The estimated useful lives are:

Vehicles	4-7 years
Equipment	4-7 years

I. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2004

NOTE 2: CASH

The Clinton Area Transit System is authorized to invest any of its funds in one or more of the following:

- A. Bonds, securities and other obligations of the United States or any agency or instrumentality of the United States.
- B. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, saving bank, or credit union whose deposits are insured by an agency of the United States government and which it maintains a principal office or branch office located in this state under the laws of state or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 o6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21,145 and 21,146 of Michigan Compiled Laws.
- C. Commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- D. The United States government or federal agency obligations repurchase agreements.
- E. Bankers acceptances of United States banks.
- F. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental agency's are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21,143, to secure deposits of state surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Cash on the balance sheet consists of the following:

Checking and savings accounts	\$ <u>1,346</u>
-------------------------------	-----------------

The Transit System's bank deposits at September 30, 2004, are composed of:

	CARRYING AMOUNT	BANK BALANCE
Insured (FDIC)	\$ <u>1,346</u>	\$ <u>11,266</u>

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2004

NOTE 3: CAPITAL ASSETS

A summary of the Transit's capital assets at September 30, 2004, follows:

	BALANCE SEPTEMBER 30, 2003	ADDITIONS	DELETIONS	BALANCE SEPTEMBER 30, 2004
Vehicles	\$ 562,321	\$ 51,255	\$	\$ 613,576
Equipment	<u>17,257</u>	<u> </u>	<u> </u>	<u>17,257</u>
Total	579,578	51,255		630,833
Less: accumulated depreciation	<u>376,571</u>	<u>114,831</u>	<u> </u>	<u>491,402</u>
Net property and equipment	\$ <u>203,007</u>	\$ (<u>63,576</u>)	\$ <u> </u>	\$ <u>139,431</u>

The depreciation expense was \$114,830 for year ended September 30, 2004.

NOTE 4: SHORT-TERM DEBT

The Transit uses a revolving line of credit for \$50,000 to cover potential cash flow shortages. Short-term debt activity for the year ended September 30, 2004, was as follows:

	BEGINNING BALANCE	DRAWS	REPAYMENTS	ENDING BALANCE
Line of credit	\$ <u> </u>	\$ <u>57,500</u>	\$ <u>17,000</u>	\$ <u>40,500</u>

NOTE 5: COMPENSATED ABSENCES

Paid leave time is earned in varying amounts depending on an employee's classification and the number of hours worked. A maximum of forty (40) hours of paid leave time may be carried over to the subsequent year.

Full time employees can earn one hundred twenty (120) hours of paid leave time per year. Leave time is accrued at a rate of 4.616 hours per pay period. Part time employees earn two (2) hours of paid leave time for any pay period in which at least forty (40) hours are worked.

Sick and vacation payable at September 30, 2004 was \$5,389.

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2004

NOTE 6: RETIREMENT PLAN

The Clinton Area Transit System employees participate in a Simple IRA Plan, which became effective on May 2, 2002.

All Transit System employees who are expected to receive at least \$5,000 in compensation for the calendar year are eligible to participate in the plan. The Transit is required to pay contributions to the plan that match the participant's contribution up to a maximum of three (3) percent of employee compensation. Participants may contribute up to one hundred (100) percent of their salary, up to the IRS maximum.

For the year ended September 30, 2004, the Transit contributed \$4,246 to the retirement plan. The Transit had a total payroll of \$267,361 and covered payroll of \$116,478.

NOTE 7: RELIANCE ON FUNDING SOURCES

The Transit receives a majority of its support from state and federal grant revenues. A significant reduction in the level of this support, if it were to occur, would have an effect on the Transit's programs and activities.

NOTE 8: RISK MANAGEMENT

The Clinton Area Transit System is a member of the Michigan Transit Pool Self-Insurance Pool ("Pool") established pursuant to an Intergovernmental Agreement entered into by the member Transit Agencies and Authorities.

This Pool was established for the purpose of making a self-insurance pooling program available for Michigan Transit Agencies and Authorities, which includes, but is not limited to, bodily injury liability, property damage liability, and personal injury liability related to vehicle operation of the Clinton Area Transit System.

The Clinton Area Transit System pays an annual premium to the Pool for this coverage. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums.

The Clinton Area Transit System continues to carry commercial insurance for employee helath, workers' compensation, and other insurance including general liability and commercial building insurance.

Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three (3) fiscal years.

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Concluded
SEPTEMBER 30, 2004

NOTE 9: CONTINGENT LIABILITIES

Under the terms of various federal and state grants, periodic compliance audits are required and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies.

NOTE 10: SUBSEQUENT EVENT

A special millage to help with funding for the Transit was on the ballot for the November, 2004 election, but failed by the voters. The Board is looking to other funding sources from local governments and possible budget cuts for the next year. A special election for this operating millage will be held in Spring of 2005.

SUPPLEMENTAL INFORMATION

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF OPERATING REVENUES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Passenger fares	\$ 65,603
Contract rides	<u>94,839</u>
 TOTAL OPERATING REVENUES	 <u><u>\$ 160,442</u></u>

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF OPERATING EXPENSES BY CATEGORY
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL
Labor				
Operator's salaries and wages	\$ 140,074	\$	\$	\$ 140,074
Other salaries and wages	8,291	2,627	60,687	71,605
Dispatcher's salaries and wages	40,667			40,667
Fringe benefits				
Other fringe benefits	32,289	175	16,255	48,719
Retirement	2,243	69	1,934	4,246
Contractual services				
Advertising fees			5,845	5,845
Audit cost			5,100	5,100
Other services	8,455	27,456	507	36,418
Materials and supplies consumed				
Fuel and lubricants	28,250			28,250
Tires and tubes	338			338
Other materials and supplies	2,233	2,348	13,522	18,103
Utilities			6,813	6,813
Insurance	28,902			28,902
Other insurance			666	666
Taxes and fees	1,073		383	1,456
Miscellaneous expenses				
Travel and meetings	510		1,372	1,882
Association dues			596	596
Other miscellaneous expenses				
Interest expense	118		653	771
Operating leases and rentals	6,676		(516)	6,160
Ineligible expenses				
Depreciation	<u>114,831</u>	<u></u>	<u></u>	<u>114,831</u>
TOTAL OPERATING EXPENSES	<u>\$ 414,950</u>	<u>\$ 32,675</u>	<u>\$ 113,817</u>	<u>\$ 561,442</u>

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF NONOPERATING REVENUES - LOCAL
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Local operating assistance	
Advertising	\$ 6,576
Miscellaneous income	10,714
Interest earnings	<u>76</u>
 TOTAL NONOPERATING REVENUES - LOCAL	 \$ <u><u>17,366</u></u>

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF NONOPERATING REVENUES - STATE AND FEDERAL
FOR THE YEAR ENDED SEPTEMBER 30, 2004

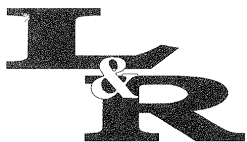
State of Michigan Grants	
Formula operating assistance (ACT 51)	\$ 180,147
Adjustment of prior year reimbursement	<u>(7,241)</u>
Total State Grants	<u>172,906</u>
Federal grants	
U.S.D.O.T. operating grant - Section 5311	46,152
Adjustment of prior year reimbursement	(1,599)
R.T.A.P.	936
Project Zero	<u>18,980</u>
Total Federal Grants	<u>64,469</u>
 TOTAL NONOPERATING REVENUES - STATE AND FEDERAL	 \$ <u><u>237,375</u></u>

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF NET ELIGIBLE EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	FEDERAL SEC 5311 REVENUE	STATE OPERATING ASSISTANCE	PROJECT ZERO
OPERATING EXPENSES			
Labor	\$ 241,596	\$ 241,596	\$ 10,750
Fringe benefits	50,709	50,709	2,256
Contractual services	45,345	45,345	2,018
Materials and supplies	44,701	44,701	1,989
Utilities	6,523	6,523	290
Insurance	28,308	28,308	1,260
Taxes and fees	1,394	1,394	62
Miscellaneous	2,373	2,373	106
Interest	738	738	33
Leases and rentals	5,899	5,899	261
Depreciation	109,939	109,939	4,892
TOTAL OPERATING EXPENSES	<u>537,525</u>	<u>537,525</u>	<u>23,917</u>
LESS INELIGIBLE EXPENSES			
Audit fee	5,100		
Association dues	105	105	5
RTAP	896	896	40
Depreciation	109,939	109,939	4,892
TOTAL INELIGIBLE EXPENSES	<u>116,040</u>	<u>110,940</u>	<u>4,937</u>
NET ELIGIBLE EXPENSES	<u>\$ 421,485</u>	<u>\$ 426,585</u>	<u>\$ 18,980</u>
Maximum Section 5311 reimbursement 10.95% of \$ 421,485, not to exceed \$46,153	<u>\$ 46,153</u>		
Maximum State operating assistance 42.23% of \$ 426,585, not to exceed \$180,147		<u>\$ 180,147</u>	
Maximum Project Zero contract 100% of \$18,980, not to exceed \$18,980			<u>\$ 18,980</u>

CLINTON AREA TRANSIT SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

FEDERAL AND STATE GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	PROGRAM AWARD AMOUNT	TOTAL SYSTEM EXPENSES
FEDERAL				
<u>U.S. Department of Transportation</u>				
Passed through MDOT				
Operating Assistance - Section 5311				
FY 03-04	20.509	2003-0095/Z3	\$ 46,153	\$ 46,153
Adjustment of prior year			(1,599)	(1,599)
RTAP training funds	20.509		936	936
Capital contribution	20.500		10,251	10,251
 <u>U.S. Department of Health and Human Services</u>				
Passed through Michigan Family				
Independence Agency and MDOT				
Project Zero	93.558	N/A	18,980	18,980
TOTAL FEDERAL AWARDS			<u>74,721</u>	<u>74,721</u>
 STATE				
<u>Michigan Department of Transportation</u>				
Operating Assistance - ACT 51				
FY 03-04	N/A	N/A	180,147	180,147
Adjustment of prior year			(7,241)	(7,241)
Capital contribution	20.500		41,004	41,004
TOTAL STATE AWARDS			<u>213,910</u>	<u>213,910</u>
TOTAL FEDERAL AND STATE AWARDS			<u>\$ 288,631</u>	<u>\$ 288,631</u>



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Directors
Clinton Area Transit System
St. Johns, Michigan

We have audited the general purpose financial statements of the CLINTON AREA TRANSIT SYSTEM, as of and for the year ended September 30, 2004, and have issued our report thereon dated November 30, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As a part of obtaining reasonable assurance about whether the Clinton Area Transit System's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clinton Area Transit System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the Clinton Area Transit System, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Layton & Richardson, P.C.
Certified Public Accountants

East Lansing, Michigan
November 30, 2004

PAYROLL

During the testing of payroll, we noticed minutes on the time cards are not being kept consistent. Some of the payroll checks are being kept on quarter hour format, while other checks are being calculated on a per minute basis which is leaving a variance of total time worked. We recommend that all timesheets be kept in the same way for each hourly employee.

Management response: The hourly employee's time is currently being calculated on the 100th of each hour.

It was also noted during our audit that the person preparing the payroll checks is also the person distributing them after they are signed. We suggest that in order to provide better payroll controls, the payroll check preparer not get the paychecks back after they have been signed.

During our audit testing, we noted that not all W-4's were accounted for in the personnel files. This prevented us from testing the federal and state withholding calculations on some employee's paychecks. We recommend that each personnel file contain a current federal and state W-4 along with any other payroll deductions. This will provide better controls when it comes to implementing payroll changes.

Management response: This has been corrected.

GENERAL

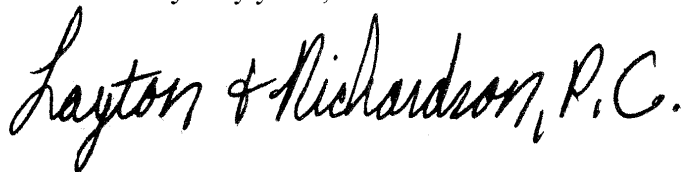
Blank check stock is being kept in an unlocked filing cabinet. We recommend that the check stock be locked up at all times when not in use. This will help in fraud prevention. **Management response: This has been implemented.**

We also recommend that the board review and lower the cash disbursement authorization amount from \$10,000 to \$5,000. We feel that the lowered amount provides more controls necessary for the Organization.

We recommend that bank statements be received by the Treasurer of the Board. They should review and approve the bank statement and outstanding checks before it gets reconciled. We also recommend that when performing bank reconciliations, all outstanding checks older than six months being investigated. These recommendations will improve internal controls over cash.

We are grateful to the Organization's management and employees for the assistance and cooperation that we received during the audit, and we thank them.

Very truly yours,



Certified Public Accountants

East Lansing, Michigan
November 30, 2004

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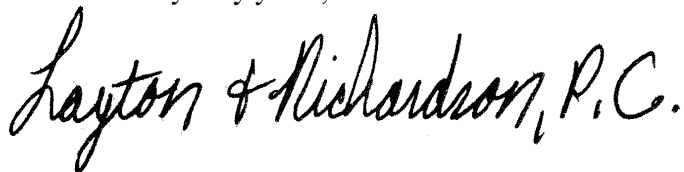
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November 30, 2004